UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

DEVAL DENIZCILIK VE TICARET A.S.,

Plaintiff,

- against -

REPINTER INTERNATIONAL SHIPPING CO. S.A. and MIACHART CORPORATION LLC,

Defendants

07 CIV 3397 (JGK)

EXHIBIT 3 to the Declaration of Epaminondas G. Arghyrakis
Dated 18.06.07

SYNDICATE 1036

Annual Report

31 December 2006

SYNDICATE 1036

ANNUAL REPORT

For the year ended 31 December 2006

Contents

SYNDICATE 1036

MANAGING AGENCY – CORPORATE INFORMATION

Directors

The directors of Limit Underwriting Limited, the managing agent, who served during the year ended 31 December 2006, were:

J M G Andrews *	resigned 8 March 2006
I D Beckerson	
S P Burns	
D A Constable	
P A Dodridge	appointed 21 November 2006
P E Grove	
M J Harrington	resigned 1 September 2006
M S Kang	
D M Lang	
V McLenaghan	appointed 21 November 2006
J D Neal	
B M Nicholls	resigned 21 November 2006
C R O'Farrell	
F M O'Halloran	
P V Olsen *	
J W Parry	
B W Pomeroy *	appointed 23 January 2006
H M Posner *	appointed 8 March 2006
C Rolleston	appointed 23 January 2006
E A Di Silvio	appointed 21 November 2006
B R Smith *	resigned 8 March 2006
D J Winkett	
D Woodruff	appointed 18 October 2006

* non-executive Directors

Directors' Interests

None of the directors were members of the syndicate for the year of account open during the period of these accounts.

Company secretary

A C H Williams	appointed 8 December 2006
H G Pallot	resigned 8 December 2006

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

SYNDICATE 1036

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of Limit Underwriting Limited (Limit), the managing agent for Syndicate 1036, present the Annual Report and audited financial statements for the syndicate for the year ended 31 December 2006.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

Principal activity

Syndicate 1036 is a direct marine and energy syndicate operating within the Lloyd's insurance market. The syndicate is led by Colin O'Farrell, Active Underwriter and specialises in hull, energy, liability, specie, cargo, war and political risks.

Business review and future developments

The 2004 underwriting year represents Syndicate 1036's final year as a separate syndicate prior to its merger into umbrella Syndicate 2999 for the 2005 underwriting year onwards. It now reports as a sub syndicate within the Syndicate 2999 accounts. These accounts accordingly reflect the development on the 2004 and prior years of account only.

The table below details the syndicate's annually accounted result and its key performance indicators for the year ended 31 December 2006 relative to the previous year end.

	2006 £'000	2005 £'000
Gross premium written	7,427	6,511
Net earned premiums	11,345	34,005
Net claims	6,566	(8,257)
Acquisition costs	(2,750)	(9,484)
Net underwriting profit	15,161	16,264
(Loss)/profit on exchange	(2,004)	2,705
Other net operating expenses	(3,957)	(5,416)
Investment return	2,514	3,109
Total profit	11,714	16,662
Claims ratio	n/a	24.3%
Combined operating ratio	n/a	60.1%

For the 2006 financial year, the 2004 and prior underwriting years of account have produced a profit for the financial year of £11,714,000. This was a continued reflection of the syndicate's conservative reserving policy, and the absence of deterioration on prior underwriting years, together with an investment return of £2,514,000.

The 2004 underwriting year has achieved an accumulated profit of £21,064,000 in the three year period to 31 December 2006.

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Investment performance

The total investment returns achieved for calendar year 2006 are set out below. These include income earned on funds which are not managed by the investment manager, such as short-term liquid deposits and certain overseas deposits. The combined total currency return for the year was 4.4%.

Portfolio currency	2006 Average funds £000	2006 Actual return %	2006 Benchmark return %	2005 Average funds £000	2005 Actual return %	2005 Benchmark return %
Sterling	13,454	4.2	3.0	17,718	4.8	5.0
US dollar	81,637	4.4	4.0	78,388	2.9	1.7

The benchmark for fixed income funds during 2006 was the Merrill Lynch 1 to 3 year government bond index in the relevant currency.

Investment returns achieved in the majority of portfolios outperformed the respective currency benchmarks during the year. Outperformance was generated as a result of active management using a low risk investment strategy with capital preservation a high priority.

Throughout 2006 and in the face of rising global interest rates, fund manager Minster Court Asset Management maintained a short-duration position in all portfolios. This strategy proved to be successful and a reasonable outperformance versus both the weighted currency benchmark and overall syndicate budgeted target was achieved.

After taking account of investment return, adverse exchange rate movement and claims payments, syndicate funds closed the year slightly below budgeted target.

Investment policy

QBE European Operations operates an investment committee which is responsible for recommending to the Limit Underwriting Limited agency board appropriate investment policy and strategy, and which also monitors the performance of investment managers and their compliance with internal guidelines and external regulation. The investment policy is designed to ensure that appropriate levels of liquidity, credit and investment risk are achieved.

Syndicate investments are currently limited to fixed income bonds and money market instruments. The majority of portfolios have an average credit rating equivalent to Standard & Poor's "AAA". The minimum permitted credit quality is "A-". The performance of the investment managers is monitored against the Merrill Lynch 1 to 3 year government bond index.

Management of the investment portfolios for the Syndicate is delegated under an arms-length agreement to Minster Court Asset Management Ltd, a wholly-owned subsidiary of the QBE Group. The activities of the manager are regulated by the FSA.

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Corporate Governance

Limit Board

The Limit Board is committed to high standards of corporate governance and has established a practical governance framework, which includes the delegation of considerable authority to five syndicate boards and a number of other authorised committees. All of the syndicate boards and committees comprise appropriately skilled and experienced members, and operate under formal terms of reference. The Board comprises 16 executive directors and three non-executive directors and meets seven times a year.

Syndicate Boards

Each syndicate has its own board, responsible for the reporting and review of all aspects of the syndicate's day to day management. Each board is chaired by the respective syndicate's Active Underwriter and comprises senior underwriting and management representatives of the syndicate, together with representatives of the Limit Board.

Other Committees

- **Limit Management Committee:** the Committee ensures that the day to day management of Limit is carried out in accordance with the requirements of the Limit Board and co-ordinated across various business units and syndicates. It considers QBE issues, management issues and major syndicate issues. The Committee is chaired by the Managing Director.
- **General Business Committee:** the Committee reviews and approves all routine matters which do not require Board approval; reviews and approves matters where the Board has delegated authority to the Committee; and makes recommendations as such where Board approval is required. The Committee is chaired by the Compliance and Risk Management Director.
- **Internal Audit Committee:** the Committee provides assurance that an appropriate control framework is in place to mitigate business risk and that these controls are both functioning in practice and consistent with QBE Group and Limit procedures, together with legislative and regulatory requirements. The Committee also reviews all cases of reported fraud. The Committee is chaired by a non-executive Director.
- **Group Security Committee:** the Committee is responsible for establishing and monitoring procedures and systems for the evaluation of all reinsurance security and outwards reinsurance intermediaries to be utilised by regulated entities within the Group. The Committee is chaired by the Chief Underwriting Officer.
- **Reserving Committee:** the primary responsibility of the Committee is to undertake a review for the reinsurance to close and open year reserve information produced by each managed syndicate in support of the syndicate's accounts and solvency returns. It also ensures that the level of total closed and open year reserves have been calculated, where appropriate having regard to Lloyd's Code for Management for Reserving Risks, Regulations and Byelaws, and are consistent with the standards required to attain satisfactory audit and actuarial opinions. The Committee is chaired by the Chief Actuarial Officer.
- **Information Technology Committee:** the Committee is responsible for reviewing and recommending the IT strategy to the Board, recommending the annual IT plan and budget, implementing strategy and providing oversight of material IT projects. The Committee is chaired by the IT Director.
- **Investment Committee:** the Committee is responsible for making recommendations to the board as to the appropriate investment policy and guidelines for each of the Companies' operating entities funds. It takes responsibility for the day to day implementation and monitoring of the agreed strategy. The Committee is chaired by the Chief Financial Officer.
- **Individual Capital Assessment Committee:** the Committee is responsible for providing guidance and review on capital assessment issues in relation to the FSA and Lloyd's regimes. The Committee is chaired by the Chief Actuarial Officer.
- **Risk Management Committee:** the Committee is responsible for ensuring that all risks to Limit's objectives are identified, assessed and monitored in accordance with Limit's overall risk policy. The Committee is chaired by the Compliance and Risk Management Director.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Risk Management

Limit's activities expose the business to a number of key risks which have the potential to affect Limit's ability to achieve its business objectives. The Board is responsible for ensuring that an appropriate structure for managing these risks is maintained. The Board acknowledges that it is not realistic or possible to eliminate risk entirely, and therefore seeks to ensure that the appropriate controls are in place to effectively manage risks in line with the agreed tolerance.

Limit continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk. Elements of this framework include the regular identification and assessment of the key risk and controls and clearly defined ownership of both the risks and controls.

Risk Groups

The key risks can be grouped under the following headings:

- **Insurance risk:** Limit's business is to accept insurance risk which is appropriate to enable Limit to meet its objectives. Limit seeks to balance insurance risk with reward and therefore all underwriting teams are set specific and measurable targets, which they are expected to achieve by operating within the parameters of the approved business plan and authorities framework.
- **Credit risk:** In addition to the insurance terms of trade offered as standard, credit risks can arise as a result of the inability to pay or slow payment of any of Limit's counterparties. Limit has established detailed guidelines, procedures, limits and monitoring requirements to mitigate credit risk.
- **Capital and Liquidity risk:** Capital and liquidity risk is the potential that the syndicate is unable to meet its obligations as they fall due or its capital falls below that required by regulators. The objective of Limit's capital and liquidity risk management is to ensure that capital is optimally managed, that Limit remains solvent by a significant margin and that all withdrawals and funding requirements can be met out of readily available sources of funding. Limit undertakes capital exercises to ensure that capital is adequate to meet risks and seeks to maintain a strong liquidity position by holding its assets in liquid funds.
- **Market risk:** Limit's exposure to financial market risk arises out of the investment decisions made in relation to Limit's investment of Premium Trust Fund assets. Exposure to market risk is managed through the investment strategy and detailed guidelines, which are deliberately conservative in order to eliminate potential volatility to market fluctuations as much as possible.
- **Operational risk:** Limit seeks to mitigate exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation, in addition to providing for expected losses through the budgeting process.
- **Cash flow risk:** The syndicate's exposure to cash flow risk is addressed under the heading of Capital and Liquidity risk.

Internal Audit

An independent Internal Audit function provides assurance to the Internal Audit Committee, chaired by a non-executive director, as to the effectiveness of internal systems and controls. It makes recommendations for improvement and monitors progress towards completion via management action plans. Internal Audit also provides independent feedback on the risk management process.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Other Governance issues

Limit has adopted a code of conduct which outlines a set of general business ethics that apply to all employees when conducting any activity on behalf of the syndicate. The code of conduct requires employees to carry on business in an open and honest manner with customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with a number of other requirements including whistle-blowing, confidentiality, disclosure of information and conflicts of interest. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Directors

Details of the directors of the managing agent that served during the year are shown on page 2.

Creditor payment policy

The managing agent's policy on the payment of creditors is to abide by London insurance market practices, including those of Lloyd's and the International Underwriting Association. The managing agent agrees terms with its other suppliers when it enters into binding purchase contracts, the managing agent seeks to abide by the payment terms agreed with these suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors confirm that they have complied with the above requirements in preparing the annual accounts for Syndicate 1036.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2004 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each of the persons who is a Director of the managing agent at the date of this Report confirms that:

- so far as each of the Directors is aware, there is no information relevant to the audit of the syndicate's financial statements for the year ended 31 December 2006 of which the auditors are unaware; and
- the Director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Auditors

PricewaterhouseCoopers LLP served as the syndicate's auditors for the reporting period.

By order of the Board of the managing agent

D.J. Winkett

D J Winkett
Director
Limit Underwriting Limited
London
23 March 2007

SYNDICATE 1036

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1036

We have audited the syndicate annual accounts of Syndicate 1036 for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of cash flows and the related notes. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the syndicate's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether, in our opinion, information given in the report of the Directors of the managing agent is consistent with the syndicate annual accounts. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration of the directors of the managing agent and the active underwriter and other transactions is not disclosed.

We read the report of the Directors of the managing agent and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view , in accordance with United Kingdom Generally Accepted accounting Practice, of the state of the syndicate's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the report of the Directors of the managing agent is consistent with the syndicate annual accounts.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
23 March 2007

Note
The maintenance and integrity of the QBE website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS
For the year ended 31 December 2006

	Notes	£'000	2006 £'000	£'000	2005 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	7,427		6,551	
Outward reinsurance premiums		(791)		(3,257)	
Net premiums written		6,636		3,294	
Changes in the provision for unearned premiums					
Gross amount		5,224		34,383	
Reinsurers' share		(515)		(3,672)	
		4,709		30,711	
Earned premiums, net of reinsurance			11,345		34,005
Allocated investment return transferred from the non-technical account			2,514		3,109
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(26,135)		(43,514)	
Reinsurers' share		11,155		25,894	
		(14,980)		(17,620)	
Changes in the provision for claims					
Gross amount		41,640		16,992	
Reinsurers' share		(20,094)		(7,629)	
		21,546		9,363	
Claims incurred, net of reinsurance			6,566		(8,257)
Net operating expenses	4		(8,711)		(12,195)
Balance on technical account – general business			11,714		16,662

The results above are all derived from discontinued operations.

The notes on pages 15 to 23 form an integral part of these financial statements.

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PROFIT AND LOSS ACCOUNT
NON - TECHNICAL ACCOUNT
For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Balance on technical account – general business		11,714	16,662
Investment income	7	2,483	3,236
Unrealised gains on investments		254	-
Unrealised losses on investments		-	(46)
Investment expenses and charges	7	(223)	(81)
Investment return		2,514	3,109
Allocated investment return – transferred to general business account		(2,514)	(3,109)
Profit for the financial year		11,714	16,662

The results above are all derived from discontinued operations.

There are no recognised gains or losses for the current and preceding year other than those included in the profit and loss account above and therefore no statement of recognised gains and losses has been presented.

The notes on pages 15 to 23 form an integral part of these financial statements.

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BALANCE SHEET

As at 31 December 2006

	Notes	2006 £'000	2005 £'000
Assets			
Investments			
Financial investments	8	46,535	81,285
Reinsurers' share of technical provisions			
Provision for unearned premiums		-	515
Claims outstanding		32,321	56,874
		32,321	57,389
Debtors			
Debtors arising out of direct insurance operations	9	3,533	6,263
Debtors arising out of reinsurance operations		5,768	6,644
Other debtors		8	1,157
		9,309	14,064
Other assets			
Cash at bank and in hand		166	4,450
Overseas deposits	10	1,052	1,820
		1,218	6,270
Prepayments and accrued income			
Accrued interest		631	704
Deferred acquisition costs		800	2,016
		1,431	2,720
Total assets		90,814	161,728

The notes on pages 15 to 23 form an integral part of these financial statements.

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BALANCE SHEET (continued)

As at 31 December 2006

	Notes	2006 £'000	2005 £'000
Liabilities			
Capital and reserves			
Members balances	11	11,661	23,523
Technical provisions			
Provision for unearned premiums		3,405	8,629
Claims outstanding		68,146	119,616
		71,551	128,245
Creditors			
Creditors arising out of direct insurance operations	12	2,242	2,987
Creditors arising out of reinsurance operations		2,421	3,082
Other creditors		2,929	3,873
		7,592	9,942
Accruals and deferred income		10	18
Total liabilities		90,814	161,728

These financial statements on pages 10 to 23 were approved by the Board of Limit Underwriting Limited on 23 March 2007 and were signed on its behalf by:

D.J. Winkett

D J Winkett
Director

The notes on pages 15 to 23 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Net cash outflow from operating activities		(8,733)	(1,797)
Transfer to members in respect of underwriting participations			
Distribution of profits		(16,422)	(7,335)
Continuous solvency transfers		(7,156)	(7,606)
Financing			
Cash calls received		1	3
Net cash outflow		(32,310)	(16,735)
Cash flows were applied as follows:			
Decrease in cash holdings	13	(4,012)	(7,345)
Decrease in overseas deposits	13	(586)	(991)
Net portfolio disinvestment	13	(27,712)	(8,399)
Net application of cash flows		(32,310)	(16,735)

	2006 £'000	2005 £'000
Reconciliation of operating profit to net cash flow from operating activities		
Profit for the financial year	11,714	16,662
Unrealised investment losses/(gains)	7,492	(7,999)
Decrease in net technical provisions	(31,627)	(34,104)
Decrease in debtors	6,046	29,249
Decrease in creditors	(2,358)	(5,605)
Net cash outflow from operating activities	(8,733)	(1,797)

The notes on pages 15 to 23 form an integral part of these financial statements.

SYNDICATE 1036

NOTES TO THE FINANCIAL STATEMENTS

forming part of the financial statements

1. Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and applicable Accounting Standards and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as applicable.

The directors of the managing agent have prepared the financial statements on the basis that the syndicate will close. The ability of the syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Members' funds at Lloyd's are further explained in note 16.

(b) Insurance

The result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance, as described below.

(i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior years. Premiums are shown gross of commissions payable to intermediaries and exclude taxes and duties levied on them. Estimates are included for premiums due but not yet received or notified, less an allowance for cancellations.

(ii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns, having regard to the incidence of risk.

(iii) Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. The effect of the reinsurance to close (RITC) is accounted for in the year when the RITC contract is concluded.

(iv) Claims provisions and related recoveries

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and allows for the expected value of salvage and other recoveries.

Outstanding claims and reinsurance recoveries are estimated by reviewing individual claims and making allowance for claims incurred but not reported using past experience and trends adjusted for foreseeable events.

Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims, including claims incurred but not reported, is estimated by the syndicate actuaries who apply recognised actuarial techniques considered appropriate for each portfolio, such as the Chain Ladder and Bornhuetter-Ferguson methods. These methods take into account, amongst other things, statistical analysis of the development of the value and frequency of past claims and the results of analyses undertaken at the point of underwriting. Techniques considered appropriate for specific portfolios include contract analysis, segmentation by subclass, and stochastic analysis. Classes of business are analysed at a level of detail appropriate to their materiality. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims, for example, one-off occurrences and changes in mix of business, policy conditions or the legal environment.

SYNDICATE 1036

NOTES TO THE FINANCIAL STATEMENTS (continued)

forming part of the financial statements

1. **Accounting Policies (continued)**

(iv) **Claims provisions and related recoveries (continued)**

The syndicate actuaries produce an estimate of reserves, which is reviewed by an independent actuarial firm, and is then assessed by QBE management with input from the syndicate underwriting and claims experts.

As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. For certain classes of business including liability and other long tail classes written by the syndicate, claims may not be apparent for many years after the event giving rise to the claim has happened. These classes will typically display greater variation between initial estimates and final outcomes. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

(v) **Unexpired risks provision**

Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Unexpired risks surpluses and deficits are offset where business classes are managed together.

(vi) **Acquisition costs**

Acquisition costs, which represent commission and other costs related to the acquisition of new insurance contracts, are deferred and amortised over the period to which the related premiums are earned.

(c) **Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange prevailing at the time of the transaction.

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary assets and liabilities which are maintained at historic rates.

Exchange differences are included in the technical account, except for differences arising on members' balances, which are included in members' balances.

(d) **Investments**

Investments are stated at market value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost.

(e) **Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have previously been valued, their valuation at the previous balance sheet date, together with a reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments related to the technical account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

forming part of the financial statements

1. Accounting Policies (continued)

(f) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading "members balances".

No provision has been made for any overseas tax payable by members on underwriting results.

(g) Administrative expenses

Administrative expenses are taken into account on an accruals basis. These recharged expenses include the costs of staff, who are employed by QBE Management (UK) Limited. QBE Management (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges.

(h) Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Profit commission is recognised on the basis of the cumulative annual accounting result for each year of account. It is charged to the syndicate as incurred.

(i) Reclassification of comparative balance sheet

Following a review of the balance sheet presentation, the classification of certain items has been changed in the comparative balance sheet and therefore the cash flow statement and related notes. This reclassification has no effect on net assets or the profit and loss of the syndicate for either this period or the comparative period.

(i) £2,639,000 has been reclassified from creditors arising out of direct insurance operations to creditors arising out of reinsurance operations. We now classify creditors arising out of reinsurance operations to include balances arising from both reinsurance accepted and ceded.

(ii) £1,922,000 has been reclassified out of cash and £2,025,000 out of shares and other variable yield securities, total £3,947,000, into participations in investment pools. This change in classification between cash and investments relates to the treatment of cash managed at Lloyd's and invested on behalf of the syndicate. Whilst the amounts remain readily available in cash to the syndicate, we consider it to be more appropriate presentation to show these items to reflect that the cash is invested in pooled arrangements.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

forming part of the financial statements

2. Segmental information

2006	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Marine, aviation and transport	4,193	6,295	8,655	(5,710)	(10,539)	(1,299)
Fire and other damage to property	(115)	2,258	1,584	(740)	(1,296)	1,806
Third party liability	435	719	1,008	(1,198)	5,421	5,950
Miscellaneous	(2)	(2)	119	(15)	6	108
	4,511	9,270	11,366	(7,663)	(6,408)	6,565
Reinsurance acceptances	2,916	3,381	4,139	(1,047)	(3,838)	2,635
Total	7,427	12,651	15,505	(8,710)	(10,246)	9,200

2005	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Marine, aviation and transport	7,645	30,734	(23,408)	(8,029)	13,700	12,997
Fire and other damage to property	(1,386)	6,232	(2,613)	(1,620)	(1,330)	669
Third party liability	30	3,597	(4,307)	(161)	2,102	1,231
Miscellaneous	(2)	(2)	548	2	231	779
	6,287	40,561	(29,780)	(9,808)	14,703	15,676
Reinsurance acceptances	264	373	3,258	(2,387)	(3,367)	(2,123)
Total	6,551	40,934	(26,522)	(12,195)	11,336	13,553

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2006 £'000	2005 £'000
UK	225	103
Other EU countries	1,069	504
US	315	4,679
Other countries	5,818	1,265
	7,427	6,551

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NOTES TO THE FINANCIAL STATEMENTS (continued)
forming part of the financial statements

3. Claims outstanding

Overall there is a positive net run off development of £7,529,000 of which the major contributor is third party liability of £6,957,000.

The 2005 financial year benefited from a re-assessment of ultimate claims arising in earlier periods as a result of benign claims experience during 2005.

4. Net operating expenses

	2006 £'000	2005 £'000
Acquisition costs – direct commission	1,653	1,117
Acquisition costs – other	(120)	-
Change in deferred acquisition costs	1,217	8,367
Administrative expenses	1,028	2,906
Standard personal expenses	2,928	3,873
Reinsurance commissions and profit participations	1	(1,363)
Loss/(profit) on exchange	2,004	(2,705)
	8,711	12,195

Administrative expenses include:		
Auditors remuneration:		
Fees payable to the syndicate's auditor for the audit of the syndicates annual accounts	5	5
Other services pursuant to legislation	18	18

5. Staff numbers and costs

All staff are employed by QBE Management (UK) Limited, a wholly-owned subsidiary of QBE Insurance Group Limited. The following amounts were charged to the syndicate in respect of salary costs:

	2006 £'000	2005 £'000
Wages and salaries	607	1,073
Social security costs	70	121
Other pension costs	70	612
	747	1,806

The average number of staff represented by the above recharge to the syndicate for the year was:

	2006 Number	2005 Number
Underwriting	5	10
Claims	1	2
Administration	4	10
	10	22

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NOTES TO THE FINANCIAL STATEMENTS (continued)

forming part of the financial statements

6. Directors' emoluments

The directors of Limit Underwriting Limited and the Active Underwriter received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2006 £'000	2005 £'000
Directors of the managing agent	198	158
Active underwriter	91	71

Further information in respect of the emoluments of the directors of Limit Underwriting Limited is provided in that company's financial statements for the period.

7. Investment return

Investment income

	2006 £'000	2005 £'000
Income from investments	2,483	3,066
Gains on the realisation of investments	-	170
	2,483	3,236

Investment expenses and charges

	2006 £'000	2005 £'000
Losses on the realisation of investments	173	-
Investment management expenses, including interest	50	81
	223	81

8. Financial investments

	Cost		Market Value	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Shares and other variable yield securities and units in unit trusts	4,500	9,792	4,500	9,792
Participation in investment pools	2,097	3,947	2,097	3,947
Debt securities and other fixed income securities	39,892	67,617	39,938	67,546
	46,489	81,356	46,535	81,285

Shares and other variable yield securities, units in unit trusts, and debt securities and other fixed income securities are all listed on recognised stock exchanges.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

forming part of the financial statements

9. Debtors arising out of direct insurance operations

	2006 £'000	2005 £'000
Due within one year		
Due from intermediaries	3,521	6,234
Due after one year		
Due from intermediaries	12	29
	3,533	6,263

10. Overseas deposits

These assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

11. Reconciliation of members' balance

	2006 £'000	2005 £'000
At 1 January	23,523	21,834
Profit for the financial year	11,714	16,662
Payments out of profit to members personal reserve funds	(16,422)	(7,335)
Open year profit release	(7,157)	(7,642)
Non-standard personal expenses	2	4
Losses/calls not paid	1	-
At 31 December	11,661	23,523

Members participate in syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies in that year of account in respect of their membership of a particular year.

Unpaid cash calls in the above balance for the 2004 year of account are £1,000 (2005: £2,000).

12. Creditors arising out of direct insurance operations

	2006 £'000	2005 £'000
Due within one year		
Due to intermediaries	2,242	2,987

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NOTES TO THE FINANCIAL STATEMENTS (continued)
forming part of the financial statements

13. Movement in opening and closing portfolio investments net of financing

	2006 £'000	2005 £'000
Decrease in cash holdings	(4,012)	(7,345)
Decrease in overseas deposits	(586)	(991)
Net portfolio disinvestment	(27,712)	(8,399)
Movement arising from cash flows	(32,310)	(16,735)
Changes in market value and exchange rates	(7,492)	7,999
Total movement in portfolio investments, net of financing	(39,802)	(8,736)
At 1 January, net of financing	87,555	96,291
At 31 December, net of financing	47,753	87,555

Movement in cash, portfolio investments and financing

	At 1 January 2006 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2006 £'000
Cash at bank and in hand	4,450	(4,012)	(272)	166
Overseas deposits	1,820	(586)	(182)	1,052
Portfolio investments				
Shares and other variable yield securities and units in unit trusts	9,792	(4,337)	(955)	4,500
Participation in investment pools	3,947	(1,363)	(487)	2,097
Debt securities and other fixed income securities	67,546	(22,012)	(5,596)	39,938
Total portfolio investments	81,285	(27,712)	(7,038)	46,535
Total cash, portfolio investments and financing	87,555	(32,310)	(7,492)	47,753

14. Cashflows invested in portfolio investments

	2006 £'000	2005 £'000
Purchase of shares and other variable yield securities	(7,193)	(42,627)
Purchase of debt securities and other fixed income securities	(117,267)	(73,484)
Purchase of participation in investment pools	-	(3,947)
Sale of shares and other variable yield securities	11,530	55,089
Sale of debt securities and other fixed income securities	139,279	73,368
Disposal of participation in investment pools	1,363	-
Net cash inflow from portfolio investments	27,712	8,399

NOTES TO THE FINANCIAL STATEMENTS (continued)
forming part of the financial statements

15. Related parties

The managing agent of the syndicate, Limit Underwriting Limited, and certain corporate members that provide capital to the syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited.

All transactions between the syndicate and companies within the QBE Insurance Group are conducted on normal market terms on an arms length basis.

Directors' interests

F M O'Halloran, I D Beckerson, S P Burns, P A Dodridge, P E Grove, M S Kang, D M Lang, V McLenaghan, J D Neal, B M Nicholls, C Rolleston, D J Winkett and D Woodruff all hold, or held in the year, executive directorships of other companies within the QBE European Operations Division. In addition, P V Olsen, B W Pomeroy and H M Posner are non executive directors of related companies within the QBE European Operations division.

Inter-syndicate transactions

In certain instances the syndicate has underwritten reinsurances of other managed syndicates. The premiums paid are not material either in the context of those syndicates' overall reinsurance costs nor are they a material part of this syndicate's income. All contracts are written on normal market terms at arms length.

Inwards reinsurance contracts with related QBE companies

The syndicate has not written inwards reinsurance business from companies within the QBE Insurance Group during the year.

Outward reinsurance contracts with related QBE companies

The syndicate has not written inwards reinsurance business from companies within the QBE Insurance Group during the year. The balance of reinsurance recoverable from QBE Insurance (Europe) Limited at the year-end was £48,000 (2005: £161,000) and with Equator Re of £373,000 (2005: £1,170,000).

Profit Commission

Profit commission is payable to the managing agent as per note 1(h). During the year £2,929,000 was charged (2005: £3,873,000). At the year-end £2,929,000 (2005: £3,873,000) was outstanding. This is shown within other creditors.

Managing Agent

Total fees payable to Limit Underwriting Limited in respect of services provided to the syndicate in the year amounted to £nil (£2005: £nil). No balance is outstanding at the year-end.

Administrative expenses

Total expenses recharged from Limit Underwriting Limited and QBE Management (UK) Limited in respect of services provided to the syndicate amounted to £1,234,000 (2005: £2,859,000). The balance remaining at year end is £nil (2005: £122,000).

There are no other transactions or arrangements to be disclosed.

16. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

17. Reinsurance to close

Syndicate 1036 ceased writing as a separate syndicate at the end of 2004 when it became a sub syndicate of Syndicate 2999. The 2005 account of sub syndicate 1036 is accepting the reinsurance to close of £38.4m which does not include a risk premium.